

MENCHHIYAM HYDROPOWER COMPANY LIMITED

Issue Units: 9,34,915 units

Minimum Units: 10

Issue Open Date: 04 /01/2080

Rating: CARE-NP BB (IS)

Issue Price: Rs.100

Maximum Units: 10,000

Issue Close Date: 07/01/2080

Issue Manager: NIC Asia Capital Ltd.

Project Name: Mathillo Piluwa Khola-2 Hydropower Project

Project Capacity: 4.72MW

PROJECT PROFILE

| | |
|------------------------------|---|
| Project Type | Run of River |
| Project Model | BOOT |
| Project Site | Siddhakali & Siddhapokhari VDC, Sankhuwasabha |
| Status | In operation |
| RCOD | 2079/03/15 |
| Annual Energy Generation | 26.46 GWh |
| Wet Season (8 mths) | 21.04 GWh |
| Dry Season (4 mths) | 5.42 GWh |
| Total Cost of Project | Rs. 1.31 billion (With IDC) |
| Per Megawatt Cost | Rs. 279 million (With IDC) |
| Issue date of Gen. License | 2072/09/19 |
| Validity of Gen. License | 28 years |
| General/Disc. Payback Period | 9.64yrs / 27.36yrs. |
| Internal Rate of Return | 8.95% |

UTILIZATION OF IPO PROCEEDS

Proceeds to go for payment of loan taken up for the construction of the project.

OWNERSHIP

| | |
|-----------------|-----|
| Promoters ("A") | 70% |
| Public ("B") | 30% |

KEY FINANCIAL HIGHLIGHTS (in millions)

| FY | 78/79 | 79/80Q2 | 79/80E | 80/81E | 81/82E |
|--------------|-------|---------|--------|--------|--------|
| Paid Up Cap. | 380 | 380 | 543 | 597 | 597 |
| R&S | (86) | (94) | (107) | (44) | 19 |
| LT Loan | 838 | 838 | 838 | 675 | 598 |
| Energy Sale | - | - | 59 | 149 | 153 |
| Op. Profit | (10) | (6) | 49 | 137 | 141 |
| Net Profits | (10) | (6) | (22) | 63 | 64 |

| RATIOS | 78/79 | 79/80Q2 | 79/80E | 80/81E | 81/82E |
|----------------------------|--------|---------|--------|--------|--------|
| BVPS | 77.45 | 75.34 | 80.24 | 92.55 | 103.26 |
| EPS | (2.70) | (2) | 3.97 | 10.51 | 10.71 |
| Int. Cov. Ratio (in times) | (0.2) | (0.1) | 0.94 | 2.39 | 2.23 |

VALUATION / PRICING

| | |
|------------|--------|
| As per P/E | 395.45 |
| As per P/B | 334.90 |

4.72MW HEP recently started to operate commercially. The company plans to pay ~17% of the loans through IPO proceeds. The company forecasts no dividend along 3-year window period. However, projected report shows 10% increment in capital through right issue.

Snapshots...

About the Issue: Out of the offered 16,27,750 units, 1,08,517 units for the Nepalese employed abroad, 505,780 units allotted to project affected locals, 56,099 units reserved for mutual funds, 22,439 units for employee and remaining 9,34,915 units are available for General Public.

About the Company: Incorporated as Private Ltd. on 2067/05/03; converted to Public Ltd. on 2078/03/31; registered office at Lainchaur, Kathmandu. Chairman: Deepak Khadka, Directors: Binita Thapa, Hari Shankar Puri, Executive Director: Sewak Pokhrel, Independent Director: Rinku Niraula.

Dividend and Capital Plan: Projected reports indicates an additional 10% capital increment via right shares within the upcoming three-year window. Additionally, there is no provision for any dividends to be paid out during this time.

Rationale of Credit Rating: Care Ratings Nepal Ltd. assigns [CARE-NP BB (IS)] which indicates moderate risk of default regarding timely servicing of financial obligations. Rationale put are- strengths such as experienced board members and management team, PPA with adequate coverage, low power evacuation risk and weaknesses such as operations stabilization risk, time/cost overrun and hydrology risk.

Utilization of IPO proceeds: The company has an outstanding debt of around Rs. 938 Mill, and intends to utilize Rs. 162 Mill from its IPO proceeds to partially pay ~17% of the debt. The remaining debt will be paid off gradually using the company's operational cash flow in the future.

Financial Health: The company is in loss (on 2079/80Q2). The company plans to pay out a chunk of loan from IPO proceeds; this declines the D/E equity ratio from 4.01 times in 79/80Q2 to 1.06 times in 81/82E. Interest coverage ratio (ICR) remains above 1 time along the forecasted years. The company has recently started to operate commercially. Therefore, quick and efficient stabilization of operations along with the maintenance of satisfactory electricity generation and further cost control would be the main driver of profit sustainability.

Risk Factors: Operations stabilization risk due to high cost per MW resulting in increased financial burden towards debt servicing in initial years of commercial operation. Moreover, the project depicts hydrology risk associated with Run of River generation. Also, exposure to regulatory risk due to policies and directives issued by Electricity Regulatory Commission.

Pricing & Assumptions: Our comparatives with similar HEP installed capacity finds that the peer stocks are currently trading at approx. 3.64 times their BVPS and 68.77 times their EPS. Thus, we determine the pricing of Menchhiyam Hydropower Company Limited scrip to be Rs. 395.45 and 334.90 in secondary market at current scenario. No DCF valuation due to lack of data.

Disclaimers: Not to be inferred as Investment recommendation.

Source: Prospectus, Offer letter and Care grading report.